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SUBJECT: SCENESETTER FOR CODEL WEXLER VISIT MAY 28-30, 2008

May 21 Parliamentary Election Initial Analysis  
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¶1. (SBU) Your visit to Tbilisi comes just on the heels of the May 21 Parliamentary elections, with Saakashvili's United National Movement easily obtaining a strong majority in the new Parliament. These elections are the culmination of domestic tensions which peaked last fall between the dominant ruling United National Movement party and the diverse opposition parties. President Saakashvili made a speech broadcast publicly early on May 22 where he pledged to work with every opposition member and faction in the new Parliament. Local NGO "New Generation, New Initiative" gave us privately their Parallel Vote Tabulation results which gave ruling United National Movement 58.53% of the Party List vote. The United Opposition, Christian Democrats, and Labor party also gained seats in Parliament.

¶2. (SBU) Our initial analysis of election day is that the election administration was an improvement over the January 5, 2008, Presidential election. Local Precinct Election Commission (PEC) members were better trained and on the whole, knew and carried out their responsibilities effectively. PEC members either self-corrected irregularities as they came up or corrected them when pointed out by one of the 38 joint U.S./UK observation teams. This analysis does not review the entire counting process or turn-out rates which will be important for any final review of the election. OSCE's Office of Democratic Institutions and Human Rights (ODIHR) monitored the elections and ODIHR, together with the Parliamentary Assembly of the Council of Europe, and the OSCE Parliamentary Assembly noted in a statement that "political stakeholders in Georgia made efforts to conduct parliamentary elections in line with international standards, but a number of problems were identified which made their implementation uneven and incomplete." Embassy will provide updated election reporting information via e-mail.

Context of Georgia's Strategic Importance  
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¶3. (SBU) Georgia is a strategically significant country to the United States because of its government's commitment to democracy, independence from Russia, free market economic reform, control of corruption, NATO and EU membership aspirations, and support for the Global War on Terrorism. Notably, Georgia has the third largest contingent of troops (2,000) serving in Iraq with coalition forces. The Government recently agreed to extend its commitment in Iraq and will deploy a follow-on brigade in December. Georgian peacekeepers participate in UNMIK in Kosovo and are in discussions with NATO about troop contributions to the Afghanistan mission.

¶4. (SBU) Georgia's success or failure sends a distinct message to other countries of the former Soviet Union, and in the Middle East as well, about the wisdom of a Western-oriented, democratic, free market orientation. Additionally, Georgia sits astride the main alternative corridor for trade in oil, gas, and other goods to Europe

from Central Asia and farther East. Without Georgia's cooperation, no strategy for bringing additional Azeri, Kazakh or Turkmen oil and gas to the world market without passing through Russia can succeed. These facts begin to explain as well why Russia is openly hostile to Saakashvili's vision of an independent Georgia.

15. (SBU) Since Saakashvili took office, Georgia has substantially reduced the corruption that was bleeding its treasury dry under his predecessor. Saakashvili famously fired the entire Georgian traffic police force in 2004, and retrained and rehired a much smaller staff which enjoys over 70 percent confidence of the public - an unheard of statistic for patrol police in the former Soviet Union. Saakashvili's Government has also made arrests for corruption among all levels of government common news as well. As a result, government revenues are up, electricity flows 24 hours per day, and government investment in repairing and replacing infrastructure that had badly deteriorated since the fall of the Soviet Union has increased. Even with these improvements however, public perceptions among the urban population endures that Saakashvili has spent public revenue on large-scale development projects while much of the population struggles with unemployment, underemployment and rising prices as a consequence of economic growth.

16. (SBU) Following the sting of losing the Tbilisi vote in his election victory in January, Saakashvili reallocated funds from the military and law enforcement budgets to support large increases in social spending. Saakashvili and his economic team remain committed to a macro-economic approach that seeks to attract investment by cutting taxes, eliminating tariffs and reducing red tape and corruption. Their express models are Singapore and Hong Kong. Saakashvili intends to continue reforms in his second term, and work is especially needed to create a truly independent judiciary. We would encourage you to commend his reform and encourage Saakashvili's and the ruling party's intention to introduce new reforms that would strengthen the Parliament and improve the independence of the judiciary.

NATO - Bucharest Aftermath:  
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17. (SBU) Although Georgia did not receive a Membership Action (MAP) at the NATO summit in Bucharest, top Georgian officials lauded the results as a major success, pointing to language in the April 3 summit communique that Georgia and Ukraine "will become members of NATO." In a broadcast from Bucharest, a visibly pleased President Saakashvili termed the document a "crossing of the Rubicon by Georgia," in which NATO members in support of Georgia had prevailed in a "life and death struggle" against the skeptics. Saakashvili said that while MAP is "a pledge that if you pass through the action plan well, you may become a member of NATO," the communique is a "direct commitment by NATO that Georgia and Ukraine will become members of the alliance." Saakashvili hopes that Georgia would be a member of NATO well before the end of his presidential term in five years. The next step is a review of Georgia at the NATO Ministerial in December, and one area highlighted by the Bucharest Summit is the importance of the Parliamentary elections to Georgia's bid.

18. (SBU) Georgian popular support for moving toward NATO is some 78 percent, and initial reaction from the Opposition and the Georgian media focused on the decision not to give Georgia MAP, which was reported earlier than the release of the communique. Several opposition party leaders blamed the Georgian government for losing MAP due to a failure to fulfill commitments to democracy.

Economy and Public Discontent Both Grow  
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19. (SBU) Recent political problems have some economic roots. Inflation has made many staple food and consumer items more expensive for all Georgians. Only a wealthy few are able to take advantage of the new, glittery housing developments across Tbilisi, despite the fact the economy grew 9.4 percent in 2006 and 12.4 percent in 2007. Growth will likely slow somewhat in 2008 as political turmoil has caused investors to hesitate. The emphasis in government spending has already begun to shift from infrastructure and defense to education and public health, as Saakashvili moves to

enact his campaign slogan of "Georgia without Poverty."

10.(SBU) In contrast, the opposition primarily blames current discontent with Saakashvili and his ruling party on injustice, rather than economic reasons. Property owners were disturbed in 2007 by the government's willingness to evict long-term tenants from state-owned buildings, challenge corruptly procured ownership rights in privatized property, and even to destroy some buildings in Tbilisi that were allegedly built illegally. Saakashvili's own unshakable belief in the rightness of his cause contributed to a widespread perception of aloofness and unwillingness to listen to outside voices, which hurt him in the polls. Since the election Saakashvili has made extra effort to reach out to various alienated sectors of society. For example, Saakashvili went to the Ombudsman's office to meet him and publicly announced a renewed effort to protect Georgians' human and civil rights.

11. (SBU) We estimate U.S. investment in Georgia at about USD 770 million since 2000. The United States and Georgia signed a Trade and Investment Framework Agreement in June 2007. U.S. assistance to Georgia in 2008 will be more than 150 million dollars, directed to strengthening democracy, rule of law, free markets, and energy security, among other objectives. Georgia is 2 years into a 5 year Millennium Challenge Corporation compact. Georgian officials would welcome a free trade agreement with the United States, which would attract investment and support jobs, stability, and growth in this friendly and strategic country.

#### Energy

12. (U) Georgia produces very little oil and gas on its territory, and must import most of its 1.7 billion cubic meters per year needs for national gas. The country has enormous potential for hydroelectric power generation, however. Major existing hydropower sources such as the Enguri dam and 1150 megawatt power station fell into disrepair after the fall of the Soviet Union and have only recently been rehabilitated. New sources of hydropower are being developed. Before 2004 electricity blackouts were common throughout the country, but now the system approaches consistent 24-hour a day service. In fact, Georgia now exports electricity to Turkey, Russia and Azerbaijan.

13. (U) Until 2006, Georgia was entirely dependent on Russia for supply of natural gas. Since Georgia began taking political stands Russia dislikes, the price of gas has increased more than fourfold to about \$270 and serious doubts have arisen about the reliability of Russia as a supplier. Because of conservation, new hydroelectricity sources and the availability of natural gas from Azerbaijan, Georgia's dependence on Russia for supplies of natural gas is decreasing, although it still must import the bulk of its needs.

14. (U) Gas from Azerbaijan is imported to Georgia via the Baku-Tbilisi-Ezerum pipeline, which parallels the Baku-Tbilisi-Ceyhan (BTC) oil pipeline. Azeri gas is also imported from other sources in Azerbaijan pursuant to contracts. In 2008, Azerbaijan and Georgia had difficulty reaching agreement on the price and amount of the latter supplies, but a temporary arrangement is in place until later this year. Negotiations for a longer term arrangement are underway.

15. (U) Georgia has three oil terminals on the Black Sea, to which oil is shipped by rail and pipeline from Azerbaijan. The BTC pipeline provides an outlet for an additional million barrels of oil a day. When all oil transport systems are fully operational, about 2 percent of the world's current daily consumption of oil will transit Georgia. Georgia naturally supports efforts to increase the flow of oil and gas across the Caspian. It can be a good ally in convincing the Turkmenistan and Kazakhstan governments to cooperate with Western companies to increase volumes transported via the Caspian to regional and global markets.

#### Conflict Regions: Abkhazia and South Ossetia

16. (SBU) Georgia's long-simmering problems with its

separatist regions of South Ossetia and Abkhazia persist from the early 1990s. Tensions with Russia have increased in the aftermath of Kosovo's independence, and as Georgia has moved toward NATO. Russia has recently taken a number of steps to strengthen its ties with the breakaway republics. Georgian authorities have strongly protested these actions which include a unilateral lifting of CIS economic and military sanctions on Abkhazia and South Ossetia and authorizing official government contacts with the de-facto authorities. Russia has also increased tension in the region by using its fighter jets to shoot down Georgian Unmanned Aerial Vehicles (UAV) and increasing the number of its peacekeepers stationed in Abkhazia without consulting the Georgian Government. We believe the Georgian government is sufficiently committed to its NATO membership drive that it would not jeopardize that goal by taking military action. It will, however, have to resist internal pressure to do so.

¶17. (SBU) Regaining the separatist regions lost in the early 1990's during intense internal conflicts is considered a national priority by a great majority of Georgians. Regular reliable polling continues to bear this out. The political leadership's focus on this goal reflects that fact. Moreover, official U.S. policy supports Georgia's sovereignty and independence within its internationally recognized borders, which includes Abkhazia and South Ossetia. We reject any parallels with Kosovo, as well.

#### Jewish Community in Georgia

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¶18. (SBU) There are an estimated 10,000 Jews in Georgia. The cities of Tbilisi, Kutaisi, and Batumi have the largest Jewish populations, but emigration to Israel since the collapse of the Soviet Union has greatly reduced the population. Georgia is known for its tolerance of minority religions, and the Jewish community has good relations with the other major religious groups in Georgia, which has a history of tolerance for minority religions (the overwhelming majority of the population is at least nominally affiliated with the Georgian Orthodox Church.) The leader of the main Synagogue in Tbilisi is Rabbi Avilenekh Rozenblad. In a May 2008 discussion with embassy officers, Rozenblad said the community does not face problems with discrimination. Anti-semitism is rare in Georgia. In April 2008, three Jewish graves near Batumi were vandalized, but Rabbi Rozenblad described this incident as highly unusual, saying it had been over a decade since there had been any similar incidents in Georgia.

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